

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EA-07 EURE-00 L-03 SSO-00 NSCE-00
USIE-00 INRE-00 AGR-01 SP-02 AID-05 EB-07 NSC-05
EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 IO-13 NEA-10 NSAE-00
OPIC-03 LAB-04 SIL-01 /107 W
-----151420Z 077421 /53

O 151407Z JUN 77

FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 4153

C O N F I D E N T I A L PARIS 17576

USOECD

FOR HENRY OWEN FROM SCHULTZE

PASS COOPER AND SOLOMON

E.O. 11652: GDS

TAGS: ECON, OECD

SUBJECT: EPC DISCUSSION OF GERMANY AND JAPAN

1. EPC DISCUSSION SUGGESTS U'S WILL NEED TO CONTINUE
TO PRESS BOTH GERMANY AND JAPAN FOR FURTHER ACTION TO
FULFILL SUMMIT COMMITMENTS.

2. TIETMEYER EXPRESSED CONFIDENCE THAT GERMANY WOULD
FULFILL ITS SUMMIT TARGETS AND REITERATED THE PLEDGE
TO DO MORE IF NECESSARY, BUT HE MADE GREAT POINT ABOUT
INABILITY OF ANY GOVERNMENT TO FULFILL GROWTH RATE
TARGET TO "DECIMAL POINT". EARLY IN HIS INTERVENTION
HE DESCRIBED GERMANY'S SUMMIT COMMITMENT AS "4-L/2 TO
5 PERCENT", BUT HE CONCLUDED HIS COMMENT WITH
REFERENCE TO "4 TO 5 PERCENT". WHILE TIME FRAME OF
THE REFERENCE TO "4 TO 5 PERCENT" WAS VAGUE (HE MAY
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HAVE BEEN REFERRING TO 1978), HE PASSED OFF MY EFFORT
TO OBTAIN CLARIFICATION BY REITERATING HIS COMMENT
THAT THE COMMITMENT SHOULD BE MORE IN TERMS OF THE
RANGE AND DIRECTION THAN OF PRECISE NUMERICAL FIGURE.

3. ALTHOUGH TIETMEYER DID NOT CONTEND THAT GERMAN
GROWTH SHOULD BE EXPORT LED, HE DID ARGUE THAT, GIVEN

THE STRUCTURE OF THE ECONOMY, SUSTAINED GROWTH OF DOMESTIC DEMAND WAS NOT FEASIBLE WITHOUT SOLID EXPORT DEMAND AS WELL. HE SAID GOVERNMENT HAD RECENTLY TAKEN SEVERAL SMALL EXPANSIONARY STEPS, INCLUDING CHANGES IN TAX POLICY NOW BEING DEBATED IN BUNDESTAG AND MEASURES TO INCREASE APARTMENT CONSTRUCTION BY 80 TO 90 THOUSAND UNITS, IN FULFILLMENT OF SUMMIT COMMITMENTS.

4. IT SEEMS CLEAR THAT GERMANS WILL WAIT UNTIL LATER IN THE YEAR TO DECIDE WHETHER MORE ACTION THAN NOW UNDER WAY IS REQUIRED TO FULFILL COMMITMENTS. WHATEVER THEY DO, THE IMPACT WILL NOT COME UNTIL 1978. IN PRIVATE CONVERSATION, TIETMEYER INDICATED ADDITIONAL TAX CUTS MIGHT BE MADE IF ECONOMIC STATISTICS IN NEXT FEW MONTHS ARE NOT GOOD. (HE INDICATED THIS WAS NOT YET A GOVERNMENT POSITION.) REALISTICALLY, THEREFORE, I BELIEVE WE SHOULD BEGIN FOCUSING OUR EFFORTS ON 1978, WHERE SECRETARIAT FORESEES EVEN SLOWER RATE OF GERMAN GROWTH THAN IS NOW IN PROSPECT FOR 1977.

5. JAPANESE CONTINUED TO INSIST THEY WILL MEET THEIR 6.7 PERCENT GNP TARGET IN FISCAL YEAR ENDING MARCH 78, BUT WERE VERY CAREFUL TO AVOID ANY FORECASTS FOR 1978. WE COULD NOT, HOWEVER, GET CLEAR ANSWERS TO PROBING ABOUT COURSE OF DOMESTIC DEMAND WHICH SHOULD BE GROWING FASTER RATE THAN OVERALL GNP IF CURRENT ACCOUNT SURPLUS IS TO BE REDUCED. WITH RESPECT TO CURRENT ACCOUNT, MATSUKAWA SIMPLY SAID THAT JAPAN EXPECTED ITS POSITION TO REACH "EQUILIBRIUM OR CLOSE TO EQUILIBRIUM" BY THE CONFIDENTIAL

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END OF THE FISCAL YEAR. PRESUMABLY BY "EQUILIBRIUM" HE MEANT ZERO BALANCE ON CURRENT ACCOUNT. FOR YEAR AS A WHOLE, JAPANESE CLEARLY EXPECT SIZEABLE SURPLUS. MATSUKAWA ALSO SAID HE DID NOT EXPECT THE APPRECIATION OF THE YEN TO CONTINUE FOR VERY LONG OR TO GO VERY FAR.

6. IN THE JAPANESE CASE IT SEEMS CLEAR WE WILL NEED TO KEEP REITERATING THE IMPORTANCE OF ACTIONS TO EXPAND DOMESTIC DEMAND AS WELL AS OF SPECIFIC MEASURES TO INFLUENCE CURRENT ACCOUNT. OUR SUGGESTIONS FOR SPECIFIC MEASURES TO PROMOTE CURRENT ACCOUNT SWING ELICITED A PROMISE TO STUDY, BUT NOTHING MORE. KATZ

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMMITTEE MEETINGS, ECONOMIC PROGRAMS, ECONOMIC TRENDS, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Sent Date: 15-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977PARIS17576
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770213-0917
Format: TEL
From: PARIS USOECD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770654/aaaabvjf.tel
Line Count: 111
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 6918777c-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2142814
Secure: OPEN
Status: NATIVE
Subject: EPC DISCUSSION OF GERMANY AND JAPAN
TAGS: ECON, GE, JA, OECD
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/6918777c-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009